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TRADE AND DEVELOPMENT BOARD

Intergovernmental Group on the
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Seventh session
Geneva, 26 March 1990

SECOND UNITED NATIONS CONFERENCE ON THE LEAST DEVELOPED COUNTRIES:

Preparatory process for the Conference

World Bank activities in the least developed countries

Contribution by the World Bank */

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THE WORLD BANK/IFC/MIGA

WORLD BANK ACTIVITIES IN THE LEAST DEVELOPED COUNTRIES

AUGUST 25, 1989

World Bank Activities in the Least Developed Countries

Implementation of the Substantial New Programme of Action (SNPA) for the Least Developed Countries (LDCs) adopted by the United Nations General Assembly in 1981 has been hampered in part by an unfavorable external environment (in particular, the recession in industrial countries and the collapse of commodity prices); limited capacity of LDCs to manage external shocks; natural as well as man-made emergencies; inadequate flows of external assistance; and delays in needed policy reforms. Between 1981-88, GDP growth in LDCs as a group was about 2.5 percent a year or only one third of the SNPA target of 7.2 percent.

Bank assistance activities in LDCs reflect the difficult and long-term nature of their adjustment and economic recovery process. This paper reviews Bank policies in LDCs during the fiscal years 1981 to 1989. [1] In particular, it examines recent trends in lending by the International Development Association (IDA); assesses progress in strengthening aid coordination; considers the expanding role of Bank technical assistance; and highlights a number of Bank policy initiatives of long-term development interest to LDCs.

IDA Lending to LDCs, FY81-89

World Bank financial support to LDCs depends almost entirely on IDA resources, given the lack of creditworthiness for IBRD lending of all but a few LDCs. IDA commitments to LDCs have increased from $1.0 billion a year between FY78-81 to $1.8 billion a year during FY86-89 or about 43 percent of IDA commitments to all borrowers, compared to 32 percent during the period FY78-81. This growing share of IDA funds to LDCs underlines the Bank's decision to concentrate its limited concessional resources in the poorest of its borrowing-member countries. About 97 percent of IDA credits now go to countries with per capita GNP of less than $480 (1987 dollars), including 27 of the 42 LDCs.

TABLE I - IDA Commitments to the LDCs
(US$ billions)

Fiscal Year Average	Amount	LDCs as % of total
1978-81	1.0	31.6
1982-85	1.3	41.7
1986-89	1.8	42.9
1982-89	1.6	42.4

1/ July to June.

READEX MICRO

The sectoral distribution of IDA commitments for FY82-89 showed a sizeable shift in the share of investments from agriculture and rural development to infrastructure and structural adjustment, compared to that for the FY78-81 period. As indicated in Table II, lending for infrastructure accounted for 34 percent of total IDA credits to LDCs during FY82-89 (up from 28 percent during FY78-81) reflecting increased investments in key sectors such as energy, transportation, water supply, and telecommunications; corresponding commitments to agriculture fell from 39 percent to 23 percent. Particularly during the FY86-89 period, program and structural adjustment lending increased sharply, underscoring stepped-up Bank support for LDCs undertaking policy reforms; during this period, IDA allocations for such assistance reached 29 percent of total IDA lending, or more than double the share in earlier periods. Similarly, in the population, health and nutrition sector, IDA investments in FY86-89 increased four-fold over the level of FY82-85.

TABLE II - IDA COMMITMENTS TO LDCS BY SECTORS

(US$ MILLIONS)

SECTOR	FY78-81	%	FY82-85	%	FY86-89	%	FY82-89	%
Agriculture & Rural Development	1,566.2	39.1	1,361.7	25.9	1,566.0	21.3	2,927.7	23.2
Social Sectors	458.3	11.4	724.8	13.8	1,024.8	13.9	1,749.6	13.9
Education	373.1	9.3	540.1	10.3	392.8	5.3	932.9	7.4
Population, Health, & Nutrition	32.0	0.8	74.5	1.4	302.0	4.1	376.5	3.0
Urban	53.2	1.3	110.2	2.1	330.0	4.5	440.2	3.5
Infrastructure a/	1,113.5	27.8	1,916.8	36.4	2,340.8	31.8	4,257.6	33.7
Program Lending/SALs	477.5	11.9	729.2	13.8	2,116.1	28.8	2,845.3	22.6
Technical Assistance	68.2	1.7	184.6	3.5	182.9	2.5	367.5	2.9
Others b/	320.3	8.0	348.7	6.6	119.6	1.6	468.3	3.7
IDA Lending to LDCs	4,004.1	100.0	5,265.8	100.0	7,350.2	100.0	12,616.0	100.0
Total IDA Lending to All Borrowers	12,654.1		12,630.1		17,115.7		29,745.8	
IDA to LDCs as % of Total IDA Lending	31.6		41.7		42.9		42.4	

a/ Telecommunications, power, energy, transportation & water supply

b/ Development finance, industry, small-scale enterprise & tourism

IDA flows to LDCs have been significantly positive. Table III shows that average annual net disbursements (gross disbursements less amortization payments) increased from $0.5 billion between FY78-81 to $1.4 billion during FY86-89; and over these same periods, corresponding net transfers (net disbursements less interest payments) rose from $0.5 billion to $1.3 billion a year, respectively.

TABLE III - IDA Net Disbursements and Net Transfers to the LDCs (US$ billions)

Fiscal Year Average	Net Disb.	Net Transfers
1978-81	0.5	0.5
1982-85	0.8	0.8
1986-89	1.4	1.3
1982-89	1.1	1.0

These accelerated flows reflect, to a large extent, the impact of a number of major Bank initiatives aimed at providing quick-disbursing assistance for policy reforms designed to restore growth in developing countries. Four such policy initiatives are particularly noteworthy:

(i) Adjustment Lending: This program was launched in 1980 in response to the widespread impact of the global recession on developing countries. Its main objective has been to help developing countries implement timely adjustment to external shocks while creating conditions for restoring growth. Bank assistance focused on macro-economic policy actions in four interrelated policy areas, namely: trade, mobilization of domestic and external resources, efficiency in the use of domestic resources, and institutional reform. Adjustment lending has also aimed at improving efficiency in key productive sectors, in particular, agriculture and industry. Between FY81 and FY89, 24 LDCs undertaking major policy reforms have benefitted from such adjustment lending amounting to $3.1 billion.

(ii) The **Special Facility for Sub-Saharan Africa (SFA)**: Launched in 1985, this initiative followed consideration of a Bank report entitled 'Toward Sustained Development in Sub-Saharan Africa: A Joint Program of Action,' which urged implementation of concerted policy actions to stem the economic downturn in the region. SFA was designed to address the constraints on Bank assistance for policy reform in Africa (given the lack of creditworthiness of the poorest countries for IBRD lending and the limited size of IDA resources) at a time when adjustment efforts in a growing number of countries would be seriously hampered by a further decline of net disbursements of Official Development Assistance (ODA). With the collaboration of 14 donors, the Bank mobilized additional resources of $1.2 billion to be committed over the FY86-88 period to provide quick-disbursing assistance to adjustment in IDA-eligible

countries. By the end of FY89,[2] 19 LDCs included in this group had received credits under the SFA program amounting to $449 million; in addition, donors provided additional financing resources of $420 million to be used in association with SFA credits.

(iii) The Special Program of Assistance (SPA) for Low-income, Debt-distressed Countries in Sub-Saharan Africa. In 1987, working in close collaboration with the International Monetary Fund (IMF) and the donor community, the Bank established the SPA to address the problems of debt and external financing in eligible countries pursuing programs of economic reform in the context of adjustment with growth. This initiative represents a new partnership aimed at ensuring adequate support for sustained adjustment in debt-distressed countries. The SPA has four central dimensions: increased allocations and accelerated disbursements from IDA; additional drawings from the Enhanced Structural Adjustment Facility of the International Monetary Fund (IMF); greater concessional debt relief from official creditors; and increased cofinancing of IDA-supported adjustment operations. In December 1987, twenty donor agencies and institutions pledged the equivalent of $6.4 billion over the three-year period of 1988-90 for cofinancing and coordinated financing in support of adjustment operations. In addition, a majority of bilateral donors agreed to untie substantially 50 percent of this pledge. Currently, 17 of the 22 countries eligible for cofinancing assistance under SPA are LDCs.

(iv) Recently, the Bank added a fifth dimension to the SPA by allocating a portion of IDA reflows and investment income to supplement adjustment credits to current IDA-only countries (with outstanding IBRD debt) that are implementing adjustment programs. This decision is meant to ease the IBRD debt burden of debt-distressed countries that were once creditworthy for IBRD borrowing, but are now eligible only for IDA credits. Over the FY89-93 period, available IDA resources for this relief measure is expected to be about $420 million. At this time, 5 LDCs are among 12 countries which qualify for assistance under this scheme.

2/ A Financial Rehabilitation credit for $27.9 million was extended to Chad in FY89.

Aid Coordination

Monitoring the implementation of the SNPA has underlined the need to improve aid management in LDCs, given increasing donor demands on their overburdened administrative capacity and growing concern by both donors and recipients with aid effectiveness.

In Sub-Saharan Africa, the SPA provides new arrangements for strengthening aid coordination and donor support for policy reforms which are as important as the extra resources it has mobilized. These include clearly identifying donors' particular geographical and operational priorities, greater sharing of documentation on eligible countries and on proposed adjustment operations, donor participation in selected appraisal, negotiation and supervision missions, and regular bi-annual multi-donor meetings to assess progress.

More generally, the Bank has taken steps to strengthen its own consultative group (CG) process, to support follow-up arrangements at the country level for monitoring agreed CG actions, and to increase its cooperation with governments and other multilateral organizations concerned. Bank-led CGs have been established for 10 LDCs, including four which were created since the SNPA was adopted. Since 1982, the Bank has organized 37 CG meetings involving LDCs. Expanding Bank cooperation with the United Nations Development Programme (UNDP) in LDC aid coordination has been an essential element of SNPA implementation. Such cooperation has helped strengthen the analytical content of UNDP Roundtables for LDCs, and increased Bank technical inputs, including country economic reports, sector studies and public investment reviews to the Roundtable process. In turn, UNDP has played an enhanced role in appraising the human resources and technical assistance needs of CG programs and in leading discussion on these issues at CG meetings.

The Bank has participated actively in aid coordination consultations of the Development Assistance Committee (DAC) to promote closer cooperation among donors, developing countries, international lending institutions, and UNDP, and foster more coherent economic policies and development programs. Related DAC guidelines aim at better coordinated macro-economic and sectoral government programs, including more clearly defined priorities; greater donor commitment to such priorities; and concerted actions by both donors and governments to establish local mechanisms to monitor commitments.

Technical Assistance Activities

Technical Assistance (TA) has become an important complement of Bank financial resources for investment; about 90 percent of loans and credits to all borrowers contain some provision for Bank-financed TA. To a large extent, the demand for TA in LDCs is influenced by their limited technical and institutional capacity and by the growing complexity of assistance activities, such as structural and sectoral adjustment programs.

TABLE IV - TECHNICAL ASSISTANCE (TA) TO LDCS
Calendar Years 1982 - 1988
(US$ Millions)

Category	CY82	CY83	CY84	CY85	CY86	CY87	CY88	TOTAL CY82-88	% OF TOTAL
TA in Bank Loans/Credits	173.0	241.0	220.6	138.9	166.5	164.1	203.6	1,307.7	70.0
World Bank TA Projects	33.9	31.5	72.6	22.3	19.6	41.0	92.7	313.6	16.8
Project Preparation Facilities	11.7	19.2	12.7	13.7	30.6	32.1	39.8	160.0	8.6
Bank-Executed UNDP Projects	8.2	12.2	1.6	8.9	32.4	13.9	9.2	86.4	4.6
Total	226.8	303.9	307.7	183.8	249.3	251.1	345.3	1,867.9	100.0

The Bank employs a variety of modalities for project-related TA. As indicated in Table IV, 70 percent of TA to LDCs between 1982 and 1988 was provided through specific TA components (such as engineering or technical feasibility studies, training, policy analysis) in loans/credits. Separate World Bank TA projects which represented the second largest share of World Bank TA to LDCs (17 percent) vary with the availability of grant assistance from bilateral and other multilateral sources. Project preparation facilities (including a special fund for investment-related preparatory work in Sub-Saharan Africa), representing nine percent of total TA, have long proved to be innovative and successful instruments for accelerating project preparation in LDCs where technical capacity in project preparation is often limited. UNDP financing of TA for preinvestment activities has continued to play an important complementary role to the Bank's own appraisal and financing of investment projects. Such UNDP-financed projects accounted for five percent of total Bank TA. This grant assistance, which is of special importance to LDCs reached a high $32 million in 1986, before falling to about $9 million in 1988. These projects largely address management and institutional constraints more intensely than is possible through TA components of investment projects, or where diverse TA requirements warrant a multi-sectoral approach.

Through a number of non-project modalities, the Bank contributes further to the multilateral TA effort. It has seconded Bank specialists on a non-reimbursable basis to a number of African LDCs at their request. Through training programs of the Economic Development Institute (EDI), the Bank helps strengthen LDC capacity to analyze policy alternatives and design and implement development programs and projects. Specifically, EDI organizes courses and policy seminars, shares country experience through training materials and case studies, and provides assistance to strengthen training institutions in developing countries; between FY84-88 about 600 officials from LDCs participated in EDI training programs annually. Indirectly, the Bank provides valuable TA to LDCs through its substantial country economic and sector work, project appraisal and supervision, and its continuing policy dialogue with LDCs.

Long-term policy actions of LDC interest

Long-term policies toward LDCs must underline the complementary objectives of growth and poverty reduction. Economic growth remains essential to poverty reduction. Thus, the Bank will continue to support structural adjustment programs in a growing number of LDCs in order to create the conditions for broad-based economic growth necessary for increased per capita income and consumption. But even with broad-based growth, timely benefits to vulnerable groups (especially those with limited physical and human assets) may often be difficult to realize. Growth policies must therefore be supplemented by clearly targeted poverty reduction measures. The Bank is assisting governments in designing programs to increase productive employment for the poor, enhance their physical and human assets, improve their access to basic social services, and better target relief to those most in need.

Bank policy actions supporting poverty reduction and sustained development are being stepped-up in areas of special interest to LDCs. Increased emphasis is being given to expand agriculture and improving food security; developing adequate socio-economic data to better design adjustment programs to protect the poor; promoting regional integration; and expanding the range of poverty-oriented activities.

Agriculture, including Food Security: Given the dominant role of agriculture in LDCs, stimulating growth in this sector remains the principal instrument for accelerated development. Expanding agriculture offers realistic prospects for increasing resources over the medium-term. Bank assistance to modernize African agriculture, particularly through programs of small-holder development is being expanded in a number of LDCs. In addition, the Bank will expand coordination in agricultural research through the Special Program for African Agricultural Research (SPAAR) and the Consultative Group for International Agricultural Research (CGIAR).

During the 1980s, the worsening problem of hunger in Africa has galvanized international attention. Bank estimates indicate that more than a quarter of Africa's population - over 100 million people - lack enough food. While heightened international concern has rightly focussed on transitory food insecurity (stemming in particular from emergencies such as drought and civil strife), the problem of chronic food insecurity could become a major constraint to long-term development in LDCs. Policy options to combat food insecurity must therefore address its root cause, namely, insufficient real income of households to obtain food whether by producing or purchasing it.

Within the framework of a major action program to address food security issues in developing countries, Bank assistance will focus on measures to help governments:

(i) establish the foundation for long-term food security by strengthening efforts to raise agricultural production; expand work in population and family planning programs; increase measures to mitigate the effects of drought;

better incorporate environmental concerns into development policies and programs; enhance the development role of women; and support public investments for growth-oriented projects that benefit the food insecure.

(ii) prepare country action programs aimed at identifying, appraising, and financing growth-oriented projects and cost effective interventions that improve food security and strengthen the institutional capacity to manage food security problems; such national programs will complement the Bank's other initiatives, such as structural and sectoral adjustment lending; and

(iii) mobilize an effective partnership of all concerned donors, including NGOs, to strengthen coordination of food security actions at the country level. The Bank is a relative newcomer to aspects of this issue which has been the focus of much international attention in recent years, but by adding its weight to this collaborative effort, greater progress should be possible.

Poverty and Adjustment: Implementation of structural adjustment programs has underlined concern about the social implications of the adjustment process, in particular, the transitional costs to vulnerable groups. Adjustment is essential, and failure to do is most harmful to poor people. But the process of adjustment itself is taking longer than originally anticipated. Thus, increasingly, adjustment lending operations as well as free-standing operations contain measures to address the poverty/social costs effects of adjustment. The challenge which governments and donors face is to better integrate this social dimension into the design of adjustment programs so as to reduce any adverse impact on the income and consumption of the poor. The Bank is applying a significant amount of resources, both financial and technical, to achieve this objective.

Adequate data necessary to improve decision-making and policy recommendations on poverty reduction are lacking in most LDCs. Governments will therefore need to strengthen their capability to (i) develop appropriate data systems and methodologies to measure trends in the socio-economic conditions of the poor during adjustment; (ii) design improved poverty alleviation programs to increase the access of the poor to employment and income-generating assets and social services; and (iii) carry out policy studies on adjustment and socio-economic change to monitor results. These objectives are being pursued through the Social Dimensions of Adjustment Project (SDA) which is presently being executed by the Bank (in collaboration with UNDP, the African Development Bank (AfDB) and bilateral donors) in 26 Sub-Saharan countries, including 17 LDCs. The main outputs of the SDA project for each participating country are as follows:

- An initial Concept Framework Paper which would provide a framework to trace the impact of structural adjustment policies on the socio-economic conditions of special population groups;

- A Country Assessment and Policy Issues Paper to identify key policy areas to be considered in programs to integrate the poor and alleviate the transitional costs of adjustment;

- An Analysis of the Pattern of Socio-economic Conditions to address specific policy priorities e.g. education, health, and women in development;

- A strengthened government capacity to further develop the national statistical system to analyze poverty conditions (for example, through permanent household surveys), formulate alleviation programs, and improve the policy-making process for implementing adjustment.

Expanded Poverty-oriented Activities: The Bank has increasingly oriented its operational activities to strengthen its support and impact beyond project investments, and help member governments improve sectoral policies particularly those aimed at sustained development and poverty reduction. Bank poli ies in three key areas illustrate this broad-based approach:

(i) Environment: Protection of the environment and reduction of poverty are inextricably intertwined - in both complementary and competitive ways. The Bank aims at helping governments find areas of greatest overlap in these objectives. Expanded Bank operations and assistance seek to integrate environmental concerns in national development policy; deepen the environmental assessment of Bank/IDA-assisted operations; and initiate a series of country environmental assessments and national action plans. Formulation of such plans is already being carried out in a number of developing countries, including LDCs.

(ii) Increased cooperation with Non-Governmental Organizations (NGOs): Stepped-up efforts in support of poverty reduction have increased cooperation with NGOs, given the important perspectives they bring to development activities at the local level. Growing involvement by NGOs in Bank-supported government operations can strengthen the effectiveness of these projects. Some 250 upcoming Bank-supported operations in 65 developing countries, including 28 LDCs, have been identified for possible NGO involvement.

(iii) Women in Development: The Bank's expanding support for women in development aims at making development programs more productive and efficient, given the critical role which women play in the economic life of developing countries. It has strengthened its capacity to incorporate women's concerns in project investments, in country economic and sector work, and in research on issues which influence women's economic productivity.

Regional Cooperation and Integration: Particularly in the case of Sub-Saharan Africa, increased regional economic cooperation/integration offers encouraging prospects for accelerated GDP growth over the long-term by fostering efficiencies through economies of scale; increasing intra-African trade through expanded markets; enhancing the potential for private investment; reducing barriers to international competitiveness; and expanding options for faster industrialization. The Bank is expanding cooperation with a number of regional organizations, in particular, the African Development Bank and the Southern Africa Development Coordination Conference (SADCC) which includes 5 LDCs.

Other Actions: Sustaining long-term development in LDCs will require implementation of and support for policy actions on a wide front. Other priority areas would include population and health, human resource development (education, training, institution-building) and measures to foster an enabling environment in which the private sector can make its fullest contribution to development. Future Bank financial assistance to accelerate growth and reduce poverty in LDCs will continue to depend largely on IDA replenishments and associated concessional resources. Additional assistance, aimed particularly at boosting private investments can be envisaged through the expanded program of the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) which guarantees non-commercial risks of foreign investors. But to be most effective, such multilateral actions will need to be bolstered by the sustained adjustment effort of LDCs themselves and by a more supportive external environment.

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Preparatory process for the Conference

A CASE FOR SMALL-SCALE INVESTMENT IN LDCs

Contribution by the United Nations Capital Development Fund */

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SECOND UNITED NATIONS CONFERENCE ON

THE LEAST DEVELOPED COUNTRIES

(PREPARATORY PROCESS)

A CASE FOR SMALL-SCALE INVESTMENT IN LDCs

A REVIEW OF THE EXPERIENCE

OF THE UNITED NATIONS CAPITAL DEVELOPMENT FUND

AND ITS POTENTIAL ROLE

INTRODUCTION

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INTRODUCTION

1. The assessment of progress made by the LDCs in the 1980's reveals a somber picture characterized by a disappointing economic performance and a consequent deterioration of socio-economic indicators. While the magnitude of the challenges confronting these countries must be faced by major policy reforms there is still much debate on how to improve the package of proposed adjustment measures. The experience of the United Nations Capital Development Fund suggests that appropriate aid delivery models have been developed during the decade under review to channel an increased flow of resources catering to the needs of the LDCs for small scale investment projects in the 1990s.

2. As preparations are being completed for the Second United Nations Conference on the Least Developed Countries in 1990 the UNCDF remains the, potentially, most important small scale project financing agency. It now has a proven track record of generally successful implementation of the objectives and recommendations of the Substantial New Programme of Action for the LDCs (SNPA) and it has accumulated experience and staff able to continue to do so in the future. It has focussed on appropriate aid modalities which take into account the constraints in the absorptive capacity of the recipient countries. Even more than in 1981, therefore, the Fund deserves increased international support as explicitly called for by the UNDP Governing Council at its June 1989 session.

I. THE UNCDF AND THE SNPA

3. The United Nations Capital Development Fund (UNCDF) was originally established by the General Assembly in 1966 as an autonomous organization within the United Nations System for the purpose of providing capital assistance to developing countries on grant or highly concessional terms.

With donor countries concentrating on other multilateral financing agencies the UNCDF started slowly on the basis of contributions mainly from the developing countries themselves. As a result, the General Assembly decided, in 1967, to make the UNDP responsible for managing the Fund; the Executive Secretary of the Fund reports to the UNDP Administrator and the UNDP Governing Council is the Executive Board of the Fund. It was, however, only after the first oil crisis in 1973-74, with its devastating impact on the least developed countries (LDCs), that UNCDF's mandate was redefined to focus "first and

foremost" on assistance to the LDCs and, in particular, to the low-income groups in these countries. As part of this narrower objective, the UNCDF was directed to support investment activities designed to improve economic and social infrastructure especially in the fields of integrated rural development and small-scale industry without, however, neglecting infrastructure and development needs in the social sectors. Thus the mandate of the Fund, its multisectoral operations, its grant character and its appropriate modalities of aid delivery were in full conformity with what was to become the provisions of the Substantial New Programme of Action for the LDCs (SNPA). During the 80s, the Fund evolved as a specialized project development Agency, delivering small scale investments to help meet the challenges and hardships faced by the poor in economically vulnerable countries.

4. At the core of the SNPA we find the principle of individual country responsibility for development and hence the individual country programs and policy packages aim at endogenous development, i.e. "self-reliance". Priority is assigned to the development of agriculture, especially food production, in order to reduce dependence on imported food and ensure food security. Particular importance is given to rural development as well as key development sectors such as health, nutrition, education, human settlement, manufacturing industry or transport. Interestingly, the Fund's main policy, in partnership with recipient governments, is to mobilize people's potential for self-help in all these sectors of intervention.

5. At the start of the SNPA in 1981, the UNCDF was uniquely well placed to participate in its implementation. It was in fact the only specialized multilateral agency financing LDCs on the terms and for projects in sectors and with the focus explicitly recommended in the SNPA. Providing capital assistance essentially in a grant form, the Fund was answering the call for fast-disbursing, flexible, highly concessional aid flow. In addition, because of the small scale of its projects it was in a position to fill the gap between pre-investment technical assistance and large-scale capital financing by the multilateral and bilateral financing institutions. It would also finance investments that had fallen between "the cracks" of larger investment projects either because they were too small or because they had been forgotten in the design of the larger project. Finally, although the Fund's financial, economic, social and management appraisal process was rigorous, its operational policies would lead it to take greater risks than international financing agencies are normally prepared to accept. These advantages of the UNCDF in the implementation of the SNPA were recognized by the 1981 United Nations Conference on the Least-Developed

Countries which identified the Fund as an important channel for concessional capital assistance to the LDCs; subsequently the Governing Council of UNDP called on Member States to provide adequate resources to the Fund through new or increased voluntary contributions to enable it to respond to the needs of the LDCs and thus play a meaningful role in the implementation of the SNPA.

II. THE FINANCIAL ASPECTS OF THE FUND

A. The Income of the Fund

6. Although the UNCDF is the only multilateral agency providing financing for small scale projects designed to assist the poorest segments of the LDCs, and thus the perfect institution for implementing the SNPA, it has only been able to play a very modest role, in quantitative terms, because of limited international financial support. The Fund has been sponsored by a dedicated but small group of donors; contributions from recipient countries express a much appreciated political support but cannot, naturally, address the issue of resource constraints. Thus, while the Fund has provided useful demonstrations of how the SNPA can, and should, be implemented, its programme however much appreciated was too small to have made more than a marginal impact at the national level except, perhaps, in some specific instances in the smallest LDCs.

7. Historically, far from responding to the call for larger resources, the Member States reduced their contributions by about one third between 1981 ($32 million) and 1985 ($21.5 million). While the large rise in the value of the dollar in those years had a considerable impact on contributions denominated in other currencies, the record does not provide the ringing endorsement of the Fund that was hoped for in the context of the SNPA. It should be noted that contributions have increased in subsequent years, reaching $36 million in 1988 with $38.1 million pledged for 1989. The UNCDF remains, however, an organization supported almost exclusively by the small donors (the Nordic countries, the Netherlands and Switzerland contributed 77.3% of total resources in 1981-88) with the major donors providing little or no support. It would be logical in the future to contemplate ways and means by which the group of sponsoring countries could be more closely associated to the life of the Fund.

8. In addition to its regular resources the UNCDF accepts, from time to time and where appropriate, co-financing arrangements with individual donors for specific projects. Co-financing is seen as a supplementary financing tool and its preferred modality is of the type of the "noted project": the

donor accepts to finance the project as prepared. This allows for the minimization of the additional burden for project preparation on scarce staff resources. On the whole, co-financing has not played an important role in the UNCDF's programme and only about 30 projects in LDCs have been financed through such arrangements during the period 1981-88. The major operation under co-financing has been a power project in Ethiopia which was financed through an important ($13.5 million) single contribution.

B. Commitments and Disbursements

9. After an initial decline in 1981-1983, there has been a gradual but substantial increase in the yearly volume of new commitments which reached $59.1 million in 1987 and $74.9 million in 1988. This growth reflects a number of factors. First, as operational policies developed there was an increasing number of well prepared projects available for approval. Second, international inflation and changes in the value of the dollar led to a gradual increase in average project cost (the number of new approvals increased much more slowly from 20 in 1983 to 26 in 1988). Finally, the sharp increases in the level of commitments in 1987 and 1988 were made possible by the changes in the "partial funding formula" approved by the UNDP Governing Council in 1987, which in effect allowed the Fund to make greater commitments against future contributions.

10. While the level of commitments saw robust increases in the last ten years, UNCDF disbursements have so far lagged behind; rising to the $40 million level in 1987-88. This slower progress in expenditure levels has been due to various factors: administrative and other difficulties in recipient countries, delayed implementation caused by natural disasters, slow action on the part of co-operating agencies and, sometimes, the greater complexity of the project itself. People focused projects are not always fast disbursing and the Fund, mindful of the vulnerable environment in which it operates, will not put quantitative targets above quality requirements. However, due to the programme growth triggered by the 1987 financing formula, it is expected that disbursements will rise in the 1990s considerably above the present income level. As a result liquid resources will go down which will force the Fund to curtail its programme at the beginning of the 1990s if no additional support is received (see scenario s in Annex II).

C. ALLOCATION OF UNCDF RESOURCES

11. The following table provides the regional breakdown of UNCDF assistance to LDCs for the period under review. Anticipating the recommendations of the United Nations Programme of Action for African Economic Recovery and Development (UNPAAERD), an important share of the Fund's limited resources has been channelled to African LDCS.

BREAKDOWN BY REGION OF UNCDF COMMITMENTS IN THE LDCs
FOR THE PERIOD 1981 - 1988

AFRICA:	231,897,856	68.2 %
ASIA:	54,453,295	16.0
MIDDLE EAST:	42,239,441	12.4
LATIN AMERICA:	11,349,168	3.3
TOTAL:	339,939,760	100.0 %

While allocating resources to individual countries, UNCDF does not follow a system of indicative planning figures but takes into account an ensemble of criteria reflecting the Fund's Mandate, SNPA priority areas, and the local absorption capacity. A list of cumulative commitment to individual countries is provided in Annex I.

12. A summary analysis of the country disbursement figures indicates an increased emphasis on the poorest of the LDCs. Disbursements to countries with a per capita GDP of $200 or less increased from $26 million in 1979 - 81 to $61 million in 1985 - 87 and $26 million in 1988 alone. In relative terms this meant that these countries received 34%, 60% and 42% of total disbursements in the respective time period. In other words, transfers to the poorest LDCs have increased from about one quarter to two fifths of total transfers from the UNCDF.

13. There has also been some increase in the share of the smallest LDCs, i.e. those with populations of under 5 million. Disbursements to these countries accounted for 34% of total disbursements in 1979 - 81, 41% in 1985 - 87 and 47% in 1988. This increase has been primarily at the expense of the "big" countries. This trend can be explained in the light of the present shortage of financial resources and the need to concentrate resources in an environment where they are more likely to make a difference.

D. COST OF OPERATION

14. The operating costs of the UNCDF are low considering the nature and volume of its operations. The administrative budget has slowly increased and reached $3.2 million in 1988, including reimbursement to the UNDP for services rendered. This compares favorably with commitment ($75 million) and expenditure levels ($34.6 million) for the same year. The staffing of the Fund is equally low compared to other similar organizations. To process a growing workload, both in quantitative and qualitative terms, the overall staff of the Fund shows only a very modest increase: 15 professionals in 1981 and 19 expected in 1990.

15. It is well known that small projects require almost as much work as large ones and that projects designed to benefit the poorest segments of the population, often in the remote parts of the country, require greater than average effort. Given its complex portfolio and very lean staffing level the UNCDF must work in close partnership with other agencies and recipient governments. Feasibility studies for project preparation are often financed by the UNDP Country Program. UNCDF is not an "executing agency" and the responsibility for the actual implementation of the project is vested in the government which might be assisted by a cooperating organization either within the UN system (such as OPS, FAO, ILO, etc.) or other Aid Agencies including NGOs. However, the UNDP's Resident Representative is also UNCDF's representative in the country where the project is being implemented and UNCDF monitors all projects through the ResRep's office. If needed, UNCDF will take action, for example by fielding monitoring or evaluation missions composed of specialized consultants or UNCDF's own technical advisors.

III. UNCDF'S PROGRAMME EXPERIENCE IN THE LDCs

16. During the 1980s UNCDF endeavoured to further actualize in programme operaticns the provisions of the Fund's legislative Mandate that were pertinent for the implementation of the SNPA, focusing on the issue of a more equitable distribution of the gains from socio-economic development. In so doing and learning from field experience, the Fund developed a pattern of broad programme trends throughout the decade.

A. NEW TRENDS IN PROGRAMME DEVELOPMENT

17. From equipment to investment: During the first years of its activity the Fund's projects were often limited to the provision of equipment or infrastructure within larger UNDP development programmes or projects. Starting in 1982, the Fund began to design more comprehensive and sophisticated projects in an effort to bring about an economic return on its investment, within the context of a production oriented development policy, or with a view towards developing self-sustaining social infrastructure schemes. Typically, a first generation project complements a technical assistance orientation, and the investment component follows the TA rationale. A second generation project tends to be investment oriented and the necessary TA component follows the investment rationale. The present policy of the Fund is to increase the proportion of these second generation projects to enhance overall programme quality within an improved framework of coordination between capital and technical Aid.

18. From the State to the people: While government remains the privileged partner of UNCDF - all UNCDF projects are government executed - the focus of this partnership is evolving. In order to avoid overburdening the already stretched staff and financial resources of central governments, UNCDF strives to mobilize the people's potential for self-help in project activities. Small farmers, landless laborers, fishermen, nomadic pastoralists and/or women belonging to lower income levels are key beneficiary groups whose commitment to UNCDF project activities guarantee better chances of sustainability. Thus, in Africa, twelve projects in the fields of agriculture, rural development and communication, agricultural support services, environmental health and human settlements have developed participatory mechanisms such as village committees, to involve target beneficiaries in the management/disbursement of CDF resources.

A powerful incentive for this approach is the need to overcome the bottlenecks of the recipient country's low absorption level for foreign aid in terms of national budget and staff resources through decentralization. The "burden sharing" for a development project can be passed on to the population when corresponding responsibilities and rights are also transferred.

19. From the beaten track to the road less traveled: As a small scale investor who grew more independent from classical technical assistance projects located in capital cities the Fund took as its task to venture in areas that had not been substantially explored by more important donors. For

instance, UNCDF moved into the small island countries of the Pacific which are often bypassed; it reached remote regions of LDCs not normally touched by either external or domestic development efforts such as the Bilma Oasis in Niger, the Potosi/Cochabamba mountains in Bolivia or the Id-El Ghanem area in Sudan. Expanding credit outreach in Mauritania or linking Bhutan's trail networks with suspension bridges, the Fund moves on the frontier of development.

20. The concern for poverty alleviation led the Fund to target lower income population groups that are more difficult to reach. In a sense, given this orientation, the Fund could be described as the most governmental of the NGOs and the most non-governmental of the multilateral Agencies. Consequently, it does not come as a surprise that the Fund's cooperation with NGOs in the recipient countries has steadily increased.

21. From centralization to field presence: The fact that UNCDF is in control jointly with the recipients of the complete project cycle ensures quality considerations at every step and also corresponds to strong capacity for project development in New York. To increase its capacity to monitor and facilitate project execution, the Fund has developed a network of Field Implementation Officers in the offices of the UNDP ResRep. Professional UNCDF field staff increased from 4 in 1981 to 26 in 1988 and have proven to be of great help in overcoming logistical bottlenecks or forwarding pertinent information.

22. From dispersion to concentration: A major aspect of UNCDF's evolving operational policy is to try to achieve synergism and mutual reinforcement by financing a series of related projects in a limited geographical region through successive layers of interventions. Thus, whenever possible, the programmes combine geographic concentration with a logical integration of economic infrastructures, productive activities and social infrastructures, such as health centers, schools, rural water supply and sanitation. The purpose, of course, is that the target groups will benefit from a productive project and will, in turn, be able to invest a small amount of their increased income in the operating costs and maintenance of the social infrastructures. Thus, through successive layers of interventions in a given region the Fund ensures a continuity of development activities to maximize the impact of its initial investments while striving to avoid the classical errors of the too complex integrated rural development schemes of the past.

23. Obviously, to move from an approach under which projects are viewed in isolation and their geographical location regarded as unimportant, to a "concentrated" program will take time and can only be implemented, with government agreement,

as projects are prepared and ready for financing and implementation. Examples of such geographic concentration can be found in the Timbuktu region in Mali, the lower Schebelli region in Somalia, the Archaie Plain in Haiti, the Luang Prabang region in Laos, or the Fouta Djallon mountains in Guinea. The principle of concentration can also be applied thematically as, for instance, in Nepal, where a recently identified programme follows the chain of fruit and vegetable production from assistance to the small producers in the Central region to the construction of a market in Kathmandu.

B. PRIORITY SECTORS

24. Breakdown by sector of UNCDF Commitments in the LDCs for the period 1981 - 1988:

SECTOR	AMOUNT ($US)	%
Agriculture	78,826,980	23.2
Irrigation	27,822,819	8.2
Industries	27,739,292	8.2
Total Productive activities	134,389,091	39.6
Transport	70,418,161	20.7
Energy	24,217,290	7.1
Total Economic infra-structures	94,635,451	27.8
Water supply	54,928,448	16.1
Human settlements	21,358,828	6.3
Health	19,774,298	5.8
Education	14,853,644	4.4
Total: Basic needs	110,915,218	32.6
TOTAL:	339,939,760	100.0

25. UNCDF's sectoral commitments are divided between investments designed to directly increase production in agriculture, irrigation and industry, those meant to indirectly promote income generating activities through improved infrastructure in transport and energy, and those directed at the social sectors to enhance the living conditions of low-income families through better access to water, health, shelter and education. The emphasis in agriculture is on small farmers and on food self-sufficiency; in industry on small scale manufacturing, especially in agro-based industries, and micro-enterprise development; in irrigation on small irrigation works in support of small

farmers; in transport on feeder roads in remote parts of the country to improve market access for rural production; in energy on the development of local energy sources in the rural areas; in health and education on the building of primary health care centers and schools in decentralized regions; in human settlements on upgrading low income neighborhoods. In all these areas the thrust of the Fund's program has been fully in line with the objectives of the SNPA.

26. Agriculture and Irrigation : Within the agriculture sector the Fund directs support to small farmers, and generally to the increased production of staple cereals (rice, sorghum, millet) for subsistence and domestic markets rather than to products for export. The twin underlying objectives of such support are thus to raise subsistence and income levels in the target rural areas and improve local food supplies and thus food security.

UNCDF support generally takes one or more of the following forms: Assistance to provision of farm input supplies, improved seed, etc, often allied with a short-term credit facility; simple farm equipment on a medium-term loan basis; assistance in the establishment of small-scale, manageable irrigation infrastructures to enhance water control and thus both increase and protect crop yields.

Beyond such direct assistance to agricultural production UNCDF is also giving increasing assistance to the promotion of essential "downstream" agricultural processing (rice milling, oil processing) and marketing activities to relieve critical bottlenecks and so indirectly increase returns to local small-scale agricultural production.

At the same time CDF provides assistance to small-scale rural enterprises (blacksmiths, carpenters, etc.), who both ensure the provision of necessary farm household inputs and represent diversification of the vulnerable rural economy.

27. Manufacturing Industries : Projects aimed at promoting and/or strengthening manufacturing industries in LDCs represent a considerable diversity of activity ranging from a $40,000 grant to a single village in Bangladesh to promote cottage industries to a programme of over $11 million for four parastatal sugar estates in Sudan. In this portfolio of projects an important area of concentration has been in assisting private sector development programmes designed to bring credit and training services to micro, small and medium scale enterprises. The Fund has invested in projects of this nature in sixteen countries in Asia and Africa.

28. The experience gained from this wide variety of experiences has guided the Fund to minimize assistance to

parastatal industrial activities and maximize assistance to micro, small and medium scale enterprises usually through the provision of capital for credit and equity investment. The difficulties of reaching this size of enterprise in sufficient numbers to justify the use of scarce capital has led the Fund to examine the diverse methodologies used in its various projects. This review has led to a new understanding of the "delivery mechanisms" or systems employed to reach the intended clients and of the "nuts and bolts" or practical dimensions of enterprise assistance which should increasingly be seen as commercially oriented services for "clients".

The principal use of the Fund's resources has been for onlending credit. In general all projects until recently suffered from the pervasive use of subsidies which have caused project resources to rapidly dwindle. From its experience the Fund has concluded that while certain subsidies will be required for training and technical assistance the use of capital should be at realistic rates of interest. The Fund's experience coincides with a number of other development organizations in that the micro, small and medium scale enterprises are far more concerned with access to credit on an ongoing basis at reasonable terms (i.e. commercial rates of interest) than with receiving subsidized funds which evaporate in a short period of time.

29. Transport : In the transport sector, priority is given to the rehabilitation and/or construction of rural access roads. The aim is to open up remote and inaccessible areas for agricultural development thereby (i) increasing agricultural production and farmer's income; (ii) reducing net costs of both domestic and imported products such as essential agricultural inputs.

The primary benefit derived from the UNCDF road projects lies in the net value of the additional agricultural production obtained, since any savings on vehicle operating costs are only marginal. The construction norms and standards of the UNCDF rural access roads are those of an inexpensive road with geometric characteristics that are based on speeds not exceeding 60 km/hr.

The construction works are sometimes undertaken under ILO's Labour Intensive Special Public Works Programme. They are also carried out with mechanized brigades and with external technical assistance; CDF would finance the necessary equipment. This approach provides on one hand a training ground for the national staff during project implementation stage, and on the other hand ensure the continued maintenance of the infrastructure constructed after completion of the project. The Fund is also prepared to co-finance maintenance costs for a transition period to assist

government and/or local communities in organizing themselves and taking up their responsibilities.

30. Energy : UNCDF involvement in the Energy sector has been directed toward the rural areas and, where physical conditions have allowed, toward the development of small hydro-electric rather than thermal energy generating plants, in order to minimize recurrent and foreign exchange costs. However, it has been increasingly recognized that the design and construction of rural hydro-electric infrastructure is particularly demanding on the limited engineering design and implementation capacities of LDC governments.

More generally, recognition of the typically low levels of effective demand for electrical energy in rural areas, and its geographical dispersion, coupled with the tendency for centrally established pan-territorial electricity tariffs often well below marginal operation and maintenance costs of rural electricity supply (thus jeopardizing the long run sustainability of such infrastructure) have led to increased UNCDF caution regarding involvement in this field. Instead, increasing attention is being paid to the provision of alternative energy sources. Thus recent UNCDF projects in this field have included the provision of solar electrical energy (with negligible operation and maintenance costs) for rural health centers, schools and telecommunications infrastructure. Similarly, assistance has been given to the diffusion of bio-gas installations to rural communities.

31. Human Settlement : In the field of human settlement and housing, UNCDF's activities encompass both the urban as well as the rural segments. Projects have matured from housing construction schemes to more complex ventures, necessarily involving close coordination with other Aid agencies such as the World Bank, UNCHS or bilateral donors. To the extent possible, in a typical UNCDF approach to human settlements, a comprehensive social service package is designed that will satisfy the basic needs as well as the promotion of productive activities. For instance, the project will encompass: (a) the viability of urban infrastructures (roads, sewage, water) and/or the rehabilitation of slums; (b) the construction of low cost housing units and some collective facilities (latrines, schools, health clinics, markets); (c) the financing for the local production of building materials; and (d) the provision of credit, mortgage funds, and revolving funds at concessional terms to allow low-income target beneficiaries to participate in the housing scheme.

The project design will devote special attention to such aspects as the mobilization of community efforts, utilization of indigenous building materials, integration of health and sanitation infrastructures, establishment of credit mechanism

and strengthening the institutional capacity for housing credit management, and promotion of small construction business. Wherever feasible, the project will attempt to institute a system for capital recovery and for financing of the recurrent costs. The evaluation report on the sector recommends pursuing an integrated approach and blending the lower income beneficiary groups with financially better equipped beneficiaries who can pay a price for the project delivered infrastructure, thus ensuring some form of social solidarity through a more equitable cost distribution.

32. Health : Initially, UNCDF involvement in the Health sector was limited to assistance in the construction of health care facilities (generally in rural areas, in line with the mandate) and the provision of equipment and furnishings. However, increasing recognition of the problems of operating and maintaining such facilities, as a result of government staff and budgetary constraints, has led UNCDF to widen assistance so as to include an initial stock of medicines and disposable items, while at the same time insisting on establishment of (partial) cost-recovery mechanisms through fee payment arrangements by users, to ensure regular renewal of this stock. There is also insistence on prior identification and training of medical and paramedical personnel for the future operation of the facilities. At the same time, in line with other donors, UNCDF has recognized that perhaps the most cost effective and sustainable approach to improving health conditions in rural areas lies in the improvement of village water supplies.

33. Water Supply : UNCDF's involvement in the water supply sector covers a wide range of interventions such as the financing of shallow wells equipped with hand pumps, gravity fed piped systems utilizing springs or rivers as the source of water and, of a more complex nature, the drilling of boreholes equipped with pumps powered with diesel engines.

The Fund attempts to include a sanitation component in all water supply projects or, at least, it will make sure that waste water is disposed of adequately and without causing damage to the environment.

With regard to modalities of implementation, experience suggests that the most successful projects in the sector, and in particular in rural areas, are projects where the future users of the installations participate actively in project execution, not only by providing free labor but also

participating in the decision making process (for example by selecting among options for location of wells, pipe lines or standpipes, or participating in the selection of some form of financing). Their involvement in the operation and maintenance of the facilities, often institutionalized through village water committees, is key to the sustainability of the scheme.

34. Education : UNCDF experience in the Education sector is in many ways analogous to that in the Health sector. Initially assistance was limited to assistance in construction and equiping of schools (generally primary schools, in the rural areas, in line with the mandate); more recently, a special effort has been made to encourage procurement of school equipment from local small manufacturers. Growing appreciation of the operating and maintenance cost implications for government has led UNCDF to give special attention to the prior establishment of local institutional and fee paying arrangements (e.g. through parents' committees) to ensure partial cost coverage by users and, equally importantly, to constitute a "lobby" to direct government attention to the recurrent problem of staff assignment. Recognition of the general shortage of qualified teachers has also induced UNCDF to give greater attention to the provision of facilities for teacher training at the various levels.

IV. PERSPECTIVES FOR THE NEXT DECADE

A. The Case for Small Scale Financing

35. The developing countries, in general, and the LDCs in particular, are facing daunting challenges as they try to maintain or regenerate economic growth and development in the face of a difficult international environment and mounting debts. The major multilateral financing agencies are concentrating their efforts on assisting these countries to implement policy reforms and structural adjustment programmes and, to this effect, provide a substantial proportion of their financing in the form of quick disbursing non-project loans and credits. Based on recommendations by the World Bank and the IMF in the context of Consultative Groups, many bilateral donors are following their lead by financing imports and budget support programmes. Moreover, project financing by the major bilateral and multilateral agencies tends to favor large projects or large programmes of smaller projects or components.

36. This orientation of the major financing agencies is understandable. There is no doubt about the need for policy reform and structural adjustment or about the need for quick disbursing balance of payments and budget support. For efficiency reasons it is also natural for these agencies to avoid "retail" financing and to concentrate on large programmes under which are packaged a number of smaller projects and lines of credit type operations through "wholesale" systems such as development finance companies and nationwide agricultural input programmes. In this way they can achieve large commitment and financial transfer volumes with a smaller number of loans/credits, which is important because of the limited capacity to process them.

37. There have been many highly successful large projects carried out in many countries and in various sectors, but there is also a vast demand for more modest investments particularly in areas that involve a large number of active participants and/or beneficiaries e.g. rural development, small scale agriculture as well as micro and small scale industry and business development. Furthermore the development of smaller scale infrastructures to benefit the lower income population must be adapted to the recipient country in terms of their demands on local financial and human resources as well as on local administrative capacity. Such projects take account of local cultural, social and other differences and the results in terms of output, or the use of new economic and social infrastructure facilities, may often be enhanced because of support at the local level and response from the participants/ beneficiaries.

38. In other words there is a need for developing an approach conducive to the gradual, progressive build-up of field activities that will best secure the involvement of the grassroots level. People's involvement will also reduce administrative and financial demands on the overloaded state machinery. In all its sectors of intervention, CDF sees small scale investment projects as an ideal field for policy innovation at the microeconomic level to help mitigate some of the adverse consequences of structural adjustment.

39. With the major multilateral and bilateral agencies as well as many recipient governments favoring large projects because of technological imperatives or for other efficiency reasons, important development dimensions would be lost in the absence of agencies that concentrate on small, individually designed, locally controlled innovative projects tailored to local needs and conditions. Many non-governmental organizations fulfill this function but their projects are often more dependent on outside technical assistance and not

easily replicated. Some of the smaller bilateral aid agencies also support these kinds of projects but again they tend to be heavily donor influenced and the supply of both technical expertise and equipment is usually tied to the donor country.

40. The UNCDF has clear advantages as a financing agency in the field of small, innovative, locally based projects designed to assist the poorest and most isolated population groups in the LDCs. As a multilateral organization it has no political interests in the recipient countries and its funds are untied with respect to source of supply. In addition, the small size of the projects and the use of grants reduce the risk involved for the recipient government and make it more likely that it will agree to experimental designs and local participation. Consequently the Fund can pave the way for more important investors and, with the strengthening of aid coordination at the field level, one might expect that the Fund's capacity for innovation will attract aid resources in a given region or sector otherwise bypassed.

B. For a Focussed Project Aid

41. The purpose of this summary is to synthesize, in the light of past experience, effective measures that should be taken in the next decade to better assist the LDCs. As a small operator at the microeconomic level, the Fund will limit its recommendation to the more narrow field of project aid. Broader pertinent issues relating to the policy framework which would maximize aid effectiveness are discussed elsewhere within the preparatory process of the Conference.

42. In the specific environment of the LDCs, UNCDF recommends a sustained emphasis on the following features for capital assistance projects:

- Focus on small producers as the most efficient users of capital. Whenever possible, investments in social infrastructures should also serve this category of beneficiaries.
- High level involvement of the beneficiaries in the project decision making process. This might be achieved in an advisory capacity vested with a policy making body or in the capacity of direct participants in the execution of the project.
- Better complementarity between capital and technical assistance at the preparation and implementation level.
- The pace of project development should be commensurate with local absorptive capacity. A more realistic time frame must be planned, from 3 to 5 years.
- More expertise must be transferred to the direct beneficiaries in order to insure a better return on the training programme at the local level.

- Sensitization of local government representatives to a new role in development as a regulator/coordinator of initiatives rather than a direct executant of project activities.

C. The UNCDF in the 1990s

43. As preparations are being completed for the Second United Nations Conference on the Least Developed Countries in 1990 the UNCDF, potentially, remains the most important small scale project financing agency. It now has a proven track record of generally successful implementation of the objectives and recommendations of the SNPA and it has accumulated experience and staff able to continue to do so in the future. Even more than in 1981, therefore, the Fund deserves international support as recognized by the thirty-sixth session of the Governing Council of UNDP which, in decision 89/56, "urges the Second United Nations Conference on the Least Developed Countries to bring into proper focus the needs of the least developed countries for small-scale grant capital assistance projects, and in this context make appropriate recommendations about an increase in the resources of the United Nations Capital Development Fund, given its specialization in this type of assistance."

44. There is no doubt that the Fund could expand its financing activities. Its current pipeline is estimated to amount to $348 million for 171 projects. However, present funding levels will sustain annual commitments of $65 - 70 million only through 1991 and will force a decline to about $45 million thereafter; this implies that the pipeline could not be fully funded before 1992, which is clearly an unacceptable situation for the recipient countries and for the beneficiaries of these projects.

45. The two graphs in Annex II illustrate the alternatives. The first scenario, in which the Fund's current level of approvals can be sustained only through 1991 on the basis of present contributions level and the second scenario, the preferred option, reflecting resources' growth allowing for a $100 million yearly programming level. This represents additional contributions of about $6 million per year (13% in dollar terms) to reach about $50 million in 1991 and about $70 million in 1994. These are modest goals by any standard both in terms of the total flow of ODA, in terms of the needs for the kind of assistance offered by the UNCDF and in terms of its record and potential.

V. CONCLUSIONS

Over the past seven years the UNCDF has used its limited resources effectively to implement the SNPA. Its commitments have gradually increased and disbursements are likely to follow a similar trend with some delay. It has increased the share of its resources that flow to the poorest and smallest of the LDCs and it has concentrated its financing in the sectors and projects in line with the SNPA. Its aid modalities are tailored to the needs of the LDCs.

The experience and record of the UNCDF in carrying out the SNPA since 1982 has been mixed. On the one hand, the Fund has successfully implemented its operational policies and has financed a large number of small investments geared to producing immediate benefits to low-income and disadvantaged groups in relevant priority sectors. On the other hand the growth in the Fund's resources has not kept pace with the programming potential thus developed. As we reach the end of the decade, the constraints on resources might effectively prevent the Fund from playing its designated role within the international community's efforts to further assist the LDCs in their development endeavors. We believe that an increase in assistance for small scale grant investment to the LDCs channelled through UNCDF would be one of the most appropriate and effective measures for assisting these countries. Member States of the United Nations might wish to seize this opportunity on the occasion of the second United Nations Conference on the LDCs.

August 1989

ANNEX I

UNCDF PROGRAMMES IN THE LDCs

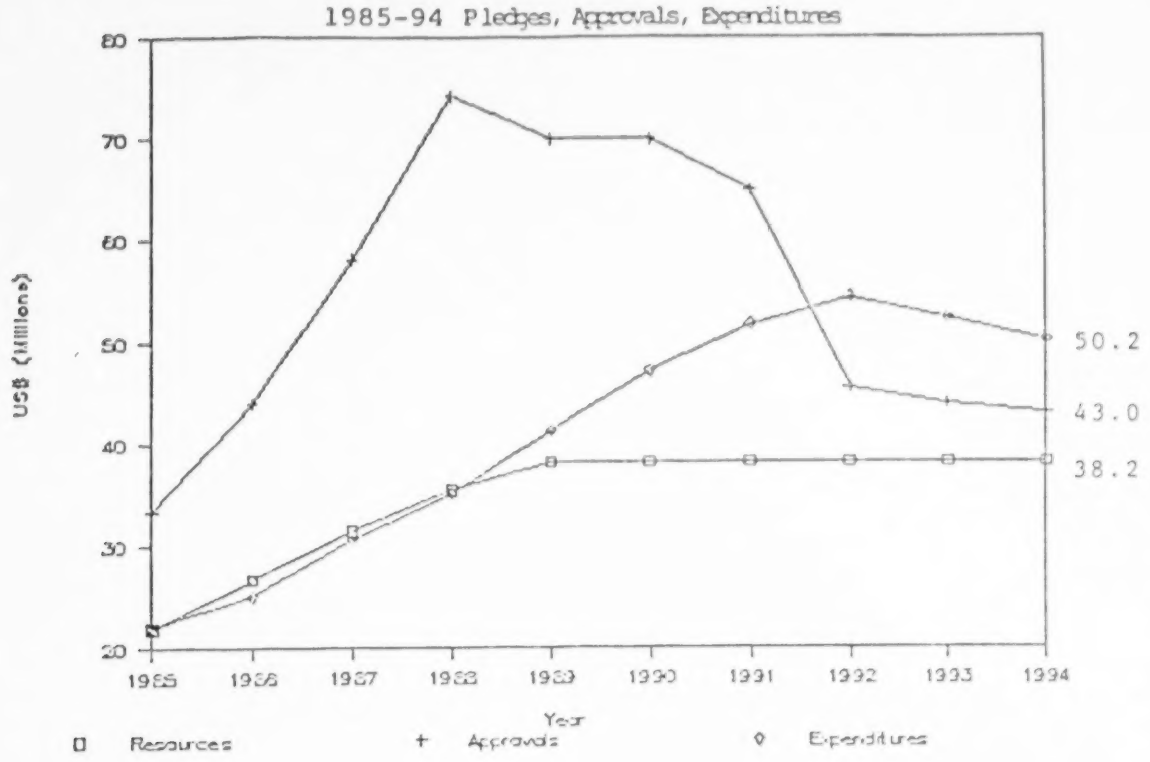
COUNTRY	CUMULATIVE COMMITMENT 1981-88	PIPELINE (31/12/88)	UNCDF PROGRAMME SIZE (31/12/88)	PERCENTAGE
AFGHANISTAN	1,031,000	0	1,031,000	0.1%
BANGLADESH	15,501,152	6,000,000	21,501,152	2.9%
BENIN	4,112,042	7,539,000	11,651,042	1.6%
BHUTAN	5,537,084	15,700,000	21,237,084	2.9%
BOTSWANA	11,160,217	13,140,000	24,300,217	2.6%
BURKINA FASO	20,059,437	7,975,000	28,034,437	2.7%
BURUNDI	5,653,454	9,200,000	14,853,454	2.0%
CAPE VERDE	3,522,456	0	3,522,456	0.5%
CENTRAL AFRICA	4,805,460	4,565,000	9,370,460	1.3%
CHAD	11,155,613	7,700,000	18,855,613	2.6%
COMOROS	3,526,138	6,220,000	9,746,138	1.3%
DEM. YEMEN	4,474,603	7,700,000	12,174,603	1.6%
DJIBOUTI	2,402,372	4,500,000	6,902,372	0.9%
EQUATORIAL GUINEA	4,248,903	1,600,000	5,848,903	0.8%
ETHIOPIA	28,354,501	25,183,000	53,537,501	7.2%
GAMBIA	8,970,661	0	8,970,661	1.2%
GUINEA	22,462,591	9,575,000	32,037,591	4.3%
GUINEA BISSAU	4,694,761	0	4,694,761	0.6%
HAITI	11,349,168	10,200,000	21,549,168	2.9%
KIRIBATI	0	600,000	600,000	0.1%
LAOS	11,792,404	6,000,000	17,792,404	2.4%
LESOTHO	6,686,518	3,541,000	10,227,518	1.4%
MALAWI	4,557,045	7,280,000	11,837,045	1.6%
MALDIVES	3,614,500	5,000,000	8,614,500	1.2%
MALI	24,282,041	14,931,000	39,213,041	5.3%
MOZAMBIQUE		0	0	0.0%
MYANMAR	3,090,000	25,200,000	28,290,000	3.8%
NEPAL	10,189,550	20,750,000	30,939,550	4.2%
NIGER	13,027,683	21,600,000	34,627,683	4.7%
RWANDA	6,883,095	13,200,000	20,083,095	2.7%
SAMOA	1,778,733	700,000	2,478,733	0.3%
SAO TOME	3,548,010	1,400,000	4,948,010	0.7%
SIERRA LEONE	6,552,550	3,123,000	9,675,550	1.3%
SOMALIA	13,479,000	10,600,000	24,079,000	3.3%
SUDAN	17,285,804	17,100,000	34,385,804	4.7%
TANZANIA	5,423,468	17,627,000	23,050,468	3.1%
TOGO	6,941,845	4,000,000	10,941,845	1.5%
TUVALU	1,271,300	0	1,271,300	0.2%
UGANDA	20,787,861	0	20,787,861	2.8%
VANUATU	647,572	2,500,000	3,147,572	0.4%
YEMEN	4,597,662	6,900,000	11,497,662	1.6%
REGIONAL AFRICA	481,506		481,506	0.1%
TOTAL:	339,939,760	318,849,000	658,788,760	89.1%

UNCDF PROGRAMMES IN THE "AS IF" LDCs

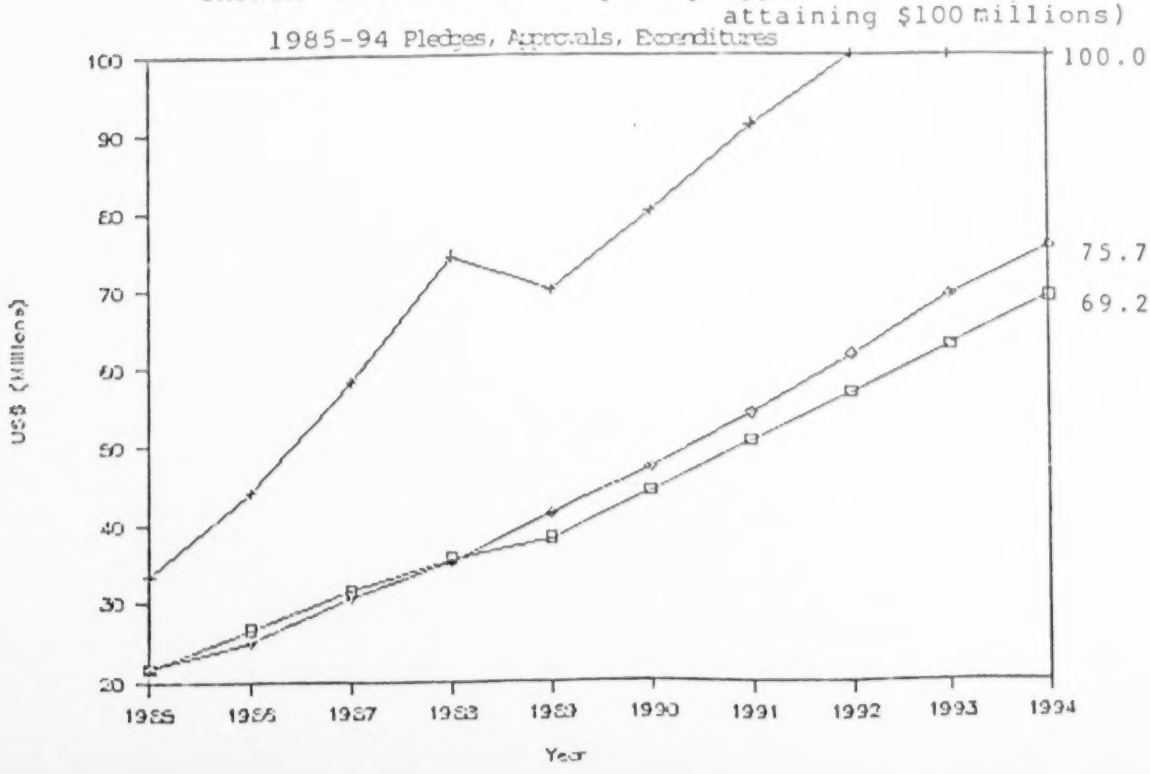
COUNTRY	CUMULATIVE COMMITMENT 1981-88	PIPELINE (31/12/88)	UNCDF PROGRAMME SIZE (31/12/88)	PERCENTAGE
ANGOLA	4,054,000	6,170,000	10,224,000	1.4%
BOLIVIA	3,906,230	15,200,000	19,106,230	2.6%
MAURITANIA	5,286,035	1,700,000	6,986,035	0.9%
NICARAGUA	11,490,000	14,950,000	26,440,000	3.6%
SENEGAL	7,715,934	8,800,000	16,515,934	2.2%
TONGA	850,000	450,000	1,300,000	0.2%
VIETNAM	0	0	0	0.0%
TOTAL:	33,302,199	47,270,000	80,572,199	10.9%
GRAND TOTAL:	373,241,959	366,119,000	739,360,959	100.0%

ANNEX II

"CRASH" SCENARIO (with pledges held constant)



"GROWTH" SCENARIO (with yearly approval level attaining $100 millions)



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TRADE AND DEVELOPMENT BOARD

Intergovernmental Group on the
Least Developed Countries
Seventh session
(Preparatory Committee for the Second
United Nations Conference on the Least
Developed Countries)
Geneva, 26 March 1990

SECOND UNITED NATIONS CONFERENCE
ON THE LEAST DEVELOPED COUNTRIES

Preparatory process for the Conference

WFP SUBSTANTIVE INPUT FOR THE PREPARATORY COMMITTEE

Contribution by the World Food Programme */

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SECOND UNITED NATIONS CONFERENCE ON THE LEAST DEVELOPED COUNTRIES

WFP SUBSTANTIVE INPUT FOR PREPARATORY COMMITTEE

1. Despite all the efforts made over the years in the area of food security, the food situation in most LDCs has either stagnated or continued to deteriorate. Although agricultural and food production were given highest priority in the SNPA for the 1980s the overwhelming body of evidence suggests that the targets set have not as yet been met. On the contrary the world food situation as a whole has deteriorated to a level which further complicates the prospects for the LDCs. Reductions in world food production have introduced a serious element of instability to food aid resources as the decade of the 1980s comes to a close.

2. The World Food Programme has strongly recommended that the next International Development Strategy for the decade of the 1990s must be infused, above all, with the goals of defeating poverty and hunger. Along these lines, WFP for its part is focussing increasing attention on the problems of food insecurity. The underlying principle is that development objectives can only be meaningfully achieved in a situation where people are able to produce their own food or gain access to food by earning incomes from productive activities.

WFP Food Assistance to LDCs

3. The share of WFP development assistance committed in 1989 to the least developed countries (including those considered by the United Nations system "as if" they were LDCs) amounted to approximately 40 percent. This remains a high share in comparison with the general size of LDC countries as well as the fact that their total population amounts to roughly 11 percent of the developing country populations assisted by WFP. In 1987, for example, the per capita share of WFP development commitments to LDCs was about five times as high as for other countries.

4. With regard to emergency assistance, about 53 percent of WFP commitments were for LDC countries in 1988. This brings to about 48 percent the LDC share of total WFP commitments (development and emergency) in 1988.

5. WFP assistance is always provided in grant form and on an untied basis. Furthermore, in contrast with most bilateral assistance, WFP assistance is provided exclusively on a project-by-project basis. This often translates into food being targetted directly to a defined group of beneficiaries - often the poorest segments. WFP assistance is primarily used to help developing countries implement their priority economic and social development projects. It may be mentioned in this context that the projects referred to are essentially government projects executed by their respective national organizations and only assisted by WFP. As an integral part of the project cycle, WFP takes into account the overall development objectives and the economic and social conditions of the individual countries.

6. The majority of LDC countries are in sub-Saharan Africa (27 out of a total of 42 countries). In June 1988, WFP's governing body, the Committee on Food Aid Policies and Programmes (CFA), approved an Action Plan for Africa under the overall UN Programme of Action for Africa's Economic Recovery and Development (UNPAAERD). This Action Plan, which covers the UNPAAERD period (1986-1990), aims to allocate over 83 percent of the total 1.8 billion dollars to sub-Saharan Africa. This will mean additional assistance to the LDCs in this region.

7. Since 1976, WFP meets up to 50 percent of the internal transport, storage and handling costs of food aid. When cash contributions have not been available for this purpose WFP has made available extra consignments of grain (wheat usually) for sale in the local market. The funds generated have been used to subsidize transport. These funds, together with cash contributions from WFP, have contributed to an increase in the absorptive capacity of the LDCs for food aid as well as helped improve the physical distribution and management operations of WFP-assisted projects. In addition to providing the ITSH subsidy WFP has gone further in some countries by extending the delivery point for its food aid shipments, which means that WFP assumes a higher than normal cost for external and internal transport.

8. In reference to food aid, the SNPA for the 1980s stated that "in accordance with the objective of self-sufficiency in food, food aid in the form of a contribution to the offsetting of structural deficits will have to continue to be temporary so as not to exacerbate or perpetuate the dependence of deficit countries". This approach simply perpetuates various myths about food aid such as that it necessarily inhibits local food production and creates market and other distortions. WFP's view has always been that, carefully managed, food aid can and does make a positive contribution to development. It is time for this perspective to be recognized instead of an approach that consigns to food aid only a passive relief role.

9. WFP has long advocated the view that food aid - and indeed all aid - must be seen as temporary and must be judged solely by the effectiveness of its contribution to resolving the critical problems of developing countries, particularly those of LDCs, whose situation is worsening despite decades of receiving aid.

10. In fact, for WFP, the issue is no longer simply how much aid of any form is provided, but most importantly how effectively this aid is deployed. It is precisely because of the lack of appropriate focus for most aid that the economic fortunes of LDCs have deteriorated further rather than improving. Along these lines, attention is increasingly being drawn in aid circles -and certainly within WFP - towards a development approach which focuses primarily on ways and means to eradicate poverty and hunger. Rather than concentrating solely on improving macro-economic indices, effective development requires growth that is both equitable and sustainable. In this context, food aid, in view of its large share of ODA for most LDCs and also owing to the fact that it represents resources that are largely additional, has an important role to play. It is imperative for a new SNPA for the 1990s to recognize this fact (particularly in the field of food security) and actively adopt measures which will facilitate the constructive use of all resources, including food aid.

11. The World Food Programme, together with other multilateral and bilateral donors and agencies, has, in recent years, examined and advocated a number of innovative approaches with the aim of sharpening the overall developmental impact of food aid. A number of principles and approaches have emerged that are recommended for adoption by the Conference as a means of encouraging the more effective use of food aid and of helping replace a passive approach to food aid with a more positive and activist approach. They include:

(i) Ways and means by which food aid can support regional, sub-regional and national efforts towards self-reliant and self-sustaining development strategies such as APPER and UNPAAERD and SNPA.

(ii) Various ways by which food aid could assist countries in the process of structural and sectoral adjustment. This would particularly draw attention to the use of food aid to create employment and in programmes to mitigate the effects of adjustment programmes on the poorest and most vulnerable groups.

(iii) Greater use of food aid in support of strategic food reserves and food security at the national, community and household levels.

(iv) Appraisal of rural development projects supported with food aid to determine the long-term maintenance and sustainabiltiy of their benefits, as well as the extent to which they should become 'bankable' (i.e., can generate an economic return) and, therefore, could attract loan finance.

(v) Development and expansion of innovative, employment-creating food-aided projects, as well as food-aided training programmes to provide and improve skills and thereby increase productivity and employment possibilities.

(vi) More effective use of food aid to enhance women's roles as producers, especially in the agricultural sector, and as key decision-makers in household food security, thereby increasing their incomes and reducing the vulnerability of their households to malnourishment, ill health and other negative effects of poverty.

(vii) Improved coordination among bilateral, multilateral and non-governmental agencies providing food aid, as well as dialogue among them and with recipient countries, particularly at the country level and also through the designated inter-governmental consultative forum of the Committee on Food Aid Policies and Programmes, World Bank Consultative Groups, UNDP Round Tables and other appropriate channels with individual recipient countries.

(viii) Amendment of criteria and regulations governing emergency food aid operations to facilitate their interaction with development assistance programmes.

(ix) A closer association of food and financial assistance, as exemplified in the working relationships established between WFP and the African Development Bank and WFP and the World Bank (most recently in the field of food security in Africa).

(x) More effective use of the proceeds accruing from the sale of food aid in support of policies, programmes and projects with clearly defined long-term developmental objectives. WFP has drawn up operational guidelines for this purpose.

(xi) Greater use of triangular transactions in food aid in Africa, taking into account their difficulties as well as their potential benefits.

(xii) Deliberate steps to convince ministries of planning and finance in recipient countries, as well as relevant authorities in donor countries, to consider food aid as a development resource equivalent in status to financial aid and to use food aid as carefully as financial assistance to make it an effective resource for development.

(xiii) Greater efforts to assist LDC governments in meeting the recurrent

costs of existing facilities and key institutions through the use of funds generated from carefully planned food aid sales.

Women in development

12. One third of the total beneficiaries of all WFP assistance are women, particularly through the feeding projects of vulnerable groups. WFP, therefore, addresses the needs of women in both their productive and their reproductive roles. Other projects geared for pregnant and lactating mothers provide for income transfer to households.

13. Substantial numbers of WFP projects work towards the improvement of water supplies and fuel woodlots to ease the burden of household chores for women.

14. Furthermore, in 1987, WFP's Governing Body, the Committee on Food Aid Policies and Programmes (CFA) approved a policy paper on women in development with guidelines for introducing greater gender-responsiveness to all WFP projects. In practical terms, this will mean greater and more conscious efforts to enhance women's participation and involvement in the mainstream development process at all levels rather than special, often peripheral women's projects or project components.

Support to LDCs Adjustment Measures

15. Most countries in Africa are undergoing a stringent process of reform and adjustment. WFP is exploring, with governments and other development agencies, ways and means of helping countries deal with the adjustment process through the constructive use of food aid. Accordingly, a paper on food aid and structural adjustment, which identified some of the main modalities, was presented to the CFA in 1987, and specific projects have been undertaken in some countries - especially in support of the social or human dimension.

ANNEX

Food Aid Flows

Table 1

CEREALS (million tons)

	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89
World Total	8.9	8.9	9.1	9.2	9.9	12.5	10.9	12.6	13.6	10.5
LDCs	2.8	2.7	2.9	3.2	3.4	5.5	4.8	4.5	4.9	3.9
% of World Total (rounded)	31	30	32	35	34	44	44	36	36	37

* FAO Food Aid in figures Vol. 7/1 1989

** ETD's on ATD's Reported by Donor (INTERFAIS WFP)

WORLD FOOD PROGRAMME CONTRIBUTION: EXECUTIVE SUMMARY

1. The World Food Programme has strongly recommended that the next International Development Strategy for the decade of the 1990's, as well as the proposed new programme for the LDCs for the 1990s, must be infused, above all, with the goals of defeating poverty and hunger. Along these lines, WFP for its part is focussing increasing attention on the problems of food insecurity. The underlying principle is that development objectives can only be meaningfully achieved in a situation where people are able to produce their own food or gain access to food by earning incomes from productive activities.

2. Despite all the efforts made over the years, the food situation in most LDCs has either stagnated or continued to deteriorate. In order to reverse this, development programmes must focus even more on providing the poor with the capacity to produce, to earn income, to acquire assets, and by so doing, to reproduce their economic (and food) security. For food aid this implies a policy outlook that places a premium on addressing the specific economic and social problems of poor people and poor communities rather than on correcting macro-imbalances in national food stocks.

3. The share of WFP development assistance committed in 1989 to the least developed countries amounted to more than 40 percent. This remains a high share in comparison with the general size of LDC countries as well as the fact that their total population amounts to roughly 11 percent of the developing country populations assisted by WFP.

4. In addition, about 85 percent of WFP commitments for emergency assistance were for LDC countries in 1989. In terms of value, some 46.6 percent of WFP shipments in 1989 (as at 24/11), including development and emergency food aid, was to LDCs.

5. WFP assistance is provided exclusively on a project-by-project basis. This usually means that food is targetted directly to a defined group of beneficiaries - often the poorest segments.

6. The majority of LDC countries are in sub-Saharan Africa (27 out of a total of 42 countries). In June 1988, the CFA approved an Action Plan for Africa under the overall UN Programme of Action for Africa's Economic Recovery and Development (UNPAAERD). This Action Plan, which covers the UNPAAERD period (1986-1990), aims to allocate over 83 percent of the total 1.8 billion dollars for Africa to sub-Saharan Africa.

7. Since 1976, WFP has met up to 50 percent of the internal transport, storage and handling costs of food and, when cash contributions have not been available for this purpose, WFP has made available extra consignments of grain (wheat usually) for sale in the local market. The funds generated have been used to subsidize transport. These funds, together with cash contributions from WFP, have contributed to an increase in the absorptive capacity of the LDCs for food aid as well as helped improve the physical distribution and management operations of WFP-assisted projects. In addition to providing the ITSH subsidy WFP has gone further in some countries by extending the delivery point for its food aid shipments, which means that WFP assumes a higher than normal cost for external and internal transport.

8. In 1989, both these forms of assistance to LDCs were expanded. Beginning with new projects, WFP now provides more than 50 percent of ITSH costs for LDCs. Costs for shipment to extended delivery points had been deducted from countries' reimbursement from ITSH subsidies, but this will no longer be done, with the Programme carrying the full burden of shipping to extended delivery points. If necessary, WFP commodities will be sold on the open market in the recipient country in order to obtain the required local currency.

9. Funds will also be provided in most cases to defray the costs of such activities as monitoring and reporting, training additional government counterpart personnel, and helping governments finance additional technical and managerial backstopping for WFP-assisted projects.

10. For least developed countries, WFP commitments total about 1.5 billion dollars. But this represents WFP's contribution. The recipient governments' support to these same projects is some one billion dollars. This is clearly too much to expect fr om most of these countries in current economic circumstances. The result is that project targets are not being achieved in the time frames set and projects are being stretched out over longer periods and governments are facing difficulty in helping design new projects. The additional assistance now provided by WFP should help to reduce or eliminate some of the critical impediments to the ability of LDCs to support WFP-assisted projects.

Future Directions for Food Aid

11. LDCs have received a large proportion of their development assistance in the form of food aid. In addition the absolute level of food aid flows to LDCs has been substantial throughout the 1980s. With the continuing problems being experienced by most LDCs in their efforts to improve their food security situation it is likely that this trend will continue for the greater part of the 1990s. It is therefore imperative that a new programme for the LDCs for the 1990s include new approaches which will direct this major resource towards contributing to the solution of fundamental problems of poverty and hunger. This would imply greater emphasis on:

(1) Increasing the use of food aid within structural adjustment programmes. Food aid can be used to generate employment as well as to mitigate the effects of these programmes on the disadvantaged.

(2) Greater use of food aid in support of strategic reserves at the national, community and household levels.

(3) More food aided training programmes to provide and improve skills of the poor thereby increasing their employment opportunities.

(4) More effective use of food aid in support of women's productive role - particularly in Africa.

(5) Closer association of food aid with technical and financial inputs to provide the poor with a complete package of assistance.

(6) Greater use of funds generated from food aid sales to support and maintain rural, social, economic infrastructure and community associations such as cooperatives.